

FitchRatings

Tagging Info

Fitch Rates \$65.5MM Regional Convention and Sports Complex Auth Rfdg Bnds (MO)

'AA'; Outlook Stable Ratings Endorsement Policy

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Fitch Ratings-New York-18 July 2013: Fitch Ratings assigns an 'AA' rating to the \$65.5 million Regional Convention and Sports Complex Authority (RCSCA, or the authority), convention and sports facility project and refunding bonds, series A 2013 (state of Missouri, sponsor).

The bonds are expected to be sold through competitive bid on or about July 30, 2013.

In addition, Fitch affirms the following ratings:

- State general obligation (GO) bonds at 'AAA';
- Certificates of participation, series A 2011 refunding at 'AA+';
- Board of Public Buildings special obligation and state building bonds at 'AA+';
- Missouri Development Finance Board leasehold revenue bonds at 'AA+';
- Missouri Health and Educational Facilities Authority (University of Missouri-Columbia Arena Project) educational facilities revenue bonds at 'AA+';
- RCSCA state appropriation bonds at 'AA'.

The Rating Outlook is Stable.

SECURITY

The bonds are special obligations of the authority, payable from annual state general assembly appropriations.

KEY RATING DRIVERS

APPROPRIATION SECURITY FOR NON-ESSENTIAL PROJECT: The two-notch distinction from the state's 'AAA' GO rating reflects the annual state legislative appropriation requirement for bond payments, as well as the less essential nature of the project. Missouri, per a financing agreement with the authority, covenants to request annually an appropriation from the state legislature to fund rental payments sufficient to pay debt service on the bonds for the Edward Jones Dome project.

LOW DEBT LEVELS: The state's debt burden is low with minimal GO debt. Bonds issued for transportation needs represent just over 70% of total state net tax-supported debt.

CONSERVATIVE FINANCIAL MANAGEMENT: Missouri has a long record of conservative operations and has consistently displayed a willingness and ability to support fiscal balance. The state's financial flexibility and liquidity position remain healthy, supported by strong revenue performance in fiscal 2013 and reserves that remained fully funded throughout the recession.

BROAD ECONOMY SIMILAR TO U.S.: The state's economy is broad and diverse, with overall sector distribution very similar to that of the nation as a whole. While the state's economic profile generally tracks in a similar direction as the nation, employment gains since the recession trough have been somewhat less robust than the U.S. experience.

RATING SENSITIVITIES

The rating is sensitive to shifts in fundamental credit characteristics, including the state's stable economic profile, proactive financial management, and very manageable long-term liabilities.

CREDIT PROFILE

Missouri's 'AAA' GO rating reflects a low debt burden, historically conservative financial operations, and a broad and diverse economy. The state has a long record of maintaining fiscal balance through spending restraint. The budget must be balanced, and the governor has strong constitutional authority to withhold funds as needed. Additional financial flexibility is provided by a budget reserve fund (BRF) equal to 7.5% of net general revenues; notably, reserve funds were not drawn on in the recession.

The series A 2013 bonds relate to the financing of the Edward Jones Dome in St. Louis, a sports, entertainment, and convention facility that serves as home stadium for the National Football League's St. Louis Rams. RCSCA originally issued separately secured bonds on behalf of the state, St. Louis County and the city of St. Louis to finance construction of the Edward Jones Dome. This issuance refunds all outstanding RCSCA bonds issued on behalf of the state in 2003.

PRUDENT FINANCIAL MANAGEMENT

Although state revenues were negatively affected during the recession, the state consistently acted to maintain balance. In both fiscal 2009 and 2010, the state revised revenue forecasts downward mid-year, and concurrently implemented multiple rounds of spending cuts. As Missouri climbed out of the recession in fiscal 2011 and 2012, the state maintained tight expenditure controls even as revenues recovered and the state benefited from the tail-end of federal stimulus funds distributions. Fiscal 2012 ended with net general revenues up 3.2% year-over-year, versus a budgeted forecast of 4%. Personal income tax (PIT) revenue rose 5.9% and sales tax revenue 4.9%. PIT revenues equal approximately 67% of net general collections, sales and use taxes (SUT) about 25%, and corporate income and franchise taxes (CFT) about 5%. The ending cash balance for fiscal 2012 was \$205 million.

Missouri ended fiscal 2013 on a strong note, with surpluses adding to reserve balances. The fiscal year 2013 budget included several minor one-time budget solutions, including \$45 million from debt restructuring and use of \$40 million in monies from the national mortgage settlement to fund higher education. The adopted budget assumed 4.1% PIT growth in fiscal 2013 versus 2012 actuals, 3.6% growth in the SUT, and 3.4% growth in the CFT. Final results for the year were strong with net general revenues growing 10.1% year-over-year to \$8.08 billion, well ahead of the budgeted 4.8% growth. PIT revenues led the way, up 9% for the year (gross basis), while SUT revenues underperformed by increasing just 1.3% (also gross basis). The state ended the year with reserves in its general fund balance and BRF totaling \$948 million, covering a solid 11.7% of final fiscal 2013 net general revenues.

The enacted fiscal 2014 budget relies on conservative revenue forecasts that, if exceeded, could lead to another strong surplus, though proposed tax changes could affect final results. The revenue forecast for fiscal 2014 was based on fiscal 2013 projections made in December 2012. Since fiscal 2013 results easily exceeded the December projections, fiscal 2014's budget actually assumes a modest net general revenue decline, absent tax policy changes, to \$7.93 billion, which Fitch views as very conservative. The legislature did adopt changes to the state's tax code in bill HB 253, including PIT reductions tied to federal action on a bill to enable SUT collection on internet sales, and further personal and corporate income tax cuts phased in and triggered by overall state revenue growth. Missouri's governor vetoed HB 253 and the legislature reconvenes in September to consider an override vote. If the veto is overridden, Fitch will evaluate the credit effect of enacted tax law changes. Given the state's track record, Fitch expects prompt and recurring actions to offset any possible revenue losses.

BROAD, SLOW-GROWTH ECONOMY

Missouri's economy is broad based and similar in makeup to that of the nation. The state's economic trends have historically moved in line with those of the U.S., though usually at a lesser pace. At the height of the recession in 2009, state employment and personal income declines were more moderate than the nation's. Since then, Missouri's recovery has been slower than that of the U.S. While the nation saw annual employment gains of 1.2% and 1.7% in 2011 and 2012, respectively, state employment grew just 0.2% and 0.5% in those years. Monthly year-over-year (yoy) data for 2013 indicates that Missouri's performance continues to lag national growth, though the gap has narrowed. In May, the state's yoy gain of 1.2% trailed the national gain of 1.6%. Similarly, the state's personal income annual growth rate was below that of the U.S. in both 2011 and 2012, while more recent yoy quarterly data show the state growing in line with or slightly behind the nation and the Plains region.

LOW DEBT BURDEN

The state's debt burden is low, with net tax-supported debt (as of June 30, 2012) equal to 1.8% of 2012 personal income. Debt levels reflect borrowing for transportation needs, including bonds issued under voter-approved Amendment 3 and grant anticipation revenue vehicle (GARVEE) bonds. Approximately 70% of outstanding tax-supported debt has been issued for transportation purposes. GO bonds constitute only 10% of outstanding debt, with the remainder consisting of appropriation-supported issues.

State GO bonds carry a full faith and credit pledge. Security for Missouri's GO bonds is very strong, with a constitutional provision requiring debt service payments be transferred to a sinking fund one year in advance of the required payment. Certificates of participation, Board of Public Building bonds, the Health and Educational Facilities Authority (University of Missouri-Columbia Arena Project) bonds, and the RCSCA state appropriation bonds are all secured by annual legislative

appropriations. As noted earlier, the RCSCA state appropriation bonds are rated one notch below the other appropriation ratings (and two notches below the GO rating) due to the non-essentiality of the funded project, a sports, entertainment and convention facility.

As of June 30, 2012, the reported funded ratio of the state's largest pension system was 73.2%. Using Fitch's more conservative 7% discount rate assumption rather than the system's 8%, the funded ratio falls to 65.9%. The state has consistently funded its actuarially calculated required contributions to the system, with the declining funded ratio due mainly to market volatility which is smoothed in over five years. On a combined basis, the burden of net tax-supported debt and adjusted unfunded pension obligations of 4.5% is well below the 7% of personal income median for U.S. states rated by Fitch.

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Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
U.S. State Government Tax-Supported Rating Criteria

Additional Disclosure
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